



State of Washington

DEPARTMENT OF FINANCIAL INSTITUTIONS
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DCU Interpretive Letter: I-05-11

Subject: Sallie Mae Investments

Background

Congress originally established the Student Loan Marketing Association, commonly known as “Sallie Mae,” in 1972 as a government-sponsored enterprise (GSE) to help students by facilitating a secondary market in federally guaranteed student loans. As a GSE, it had benefits such as exemptions from state and local taxes, but it was limited in the kinds of business it could enter. It issued debt with an implicit treasury guarantee.

In 1997, Sallie Mae began the process of privatizing its operations. Sallie Mae's shareholders approved a reorganization that created SLM Corporation, a Delaware-chartered holding company, and the Student Loan Marketing Association (Sallie Mae) GSE became its wholly-owned subsidiary. SLM Corporation began issuing unsecured debt, which was not guaranteed by the U.S. Government. It did issue a limited amount of government-backed debt, but only short-term issues, and those issues are now fully paid. SLM Corporation also bought back the majority of its previous government-sponsored debt. However, there are a small number of government-sponsored debts previously issued that continue to exist. That debt is in a trust backed by U.S. treasury bonds.

After December 29, 2004, the Student Loan Marketing Association ceased to exist, and any obligations issued by SLM Corporation (still using the Sallie Mae name) became completely unsecured.

Issues

1. May a Washington state-chartered credit union keep Sallie Mae investments purchased when Sallie Mae was a GSE, or buy Sallie Mae investments issued when Sallie Mae was a GSE?

The Washington State Credit Union Act allows credit unions to invest their funds in certain categories of debts. One of the permissible investments is in obligations issued by corporations designated under 31 USC Sec. 9101, or obligations, participations or other instruments issued and guaranteed by the federal national mortgage association (Fannie Mae), federal home loan mortgage corporation (Freddie Mac), government national mortgage association (Ginnie Mae), *or other government-sponsored enterprise*. [emphasis added] RCW 31.12.436(3).

Sallie Mae, as the Student Loan Marketing Association (SLMA), was a GSE until 1997, and thus was one of the permissible investments for credit unions under RCW 31.12.436(3). Obligations issued by SLMA before 1997 continue to be fully government guaranteed. Therefore, credit unions may retain or invest in SLMA obligations issued before 1997.

2. May a credit union keep investments purchased during Sallie Mae's privatization period, between 1997 and 2004?

Credit unions may invest in obligations that are not government guaranteed, but they must first apply for the approval of the Director of the Department of Financial Institutions (DFI). RCW 31.12.436(11).

If credit unions hold Sallie Mae investments issued during the privatization period, between 1997 and 2004, they must seek advice regarding the nature of the obligation. If it is a direct debt of the SLMA, then the credit union may retain it. If the obligation was not issued by SLMA, but is an unsecured debt issued by the SLM Corporation, then the credit union will need to either divest the debt or apply for the approval of the DFI Director, pursuant to WAC Ch. 208-436.

3. May a credit union purchase new Sallie Mae investments issued after December 29, 2004? If so, must it apply to the DFI director before purchasing those investments?

Because Sallie Mae (as SLM Corp.) became fully privatized on December 29, 2004, at that point it ceased to be an automatically permissible investment for credit unions. However, credit unions may make written application for approval from the DFI Director to purchase new Sallie Mae investments, pursuant to 31.12.436(11) and Chapter 208-436 WAC.

4. If a credit union keeps Sallie Mae investments, is it required to establish the special reserve required for non-conforming investments?

If a credit union keeps Sallie Mae investments that are fully government guaranteed (those issued before 1997, and certain investments issued between 1997 and 2004), no special reserve fund is required. If, however, a credit union has non-government-guaranteed investments (some issued after 1997, all issued after December 29, 2004), then it must establish the special reserve fund for non-conforming investments required by 12 CFR 741.3(a)(2).

Conclusion

Debt issued by SLM Corporation after 1997 is not guaranteed by the U.S. Government, and SLM Corporation is neither “Student Loan Marketing Association” nor a “government sponsored enterprise.” Therefore, such debt is not a permissible investment for credit unions under RCW 31.12.436(3). If a credit union wishes to invest in non-government backed debt issued by SLM Corporation, it must apply to the director of the Department of Financial Institutions. The credit union would also have to keep a special reserve for that non-conforming investment.

If you have any questions about this interpretive letter, please contact Linda Jekel at (360) 902-8778 or ljekel@dfi.wa.gov.